

AR46

Discovery

Mines
LIMITED

ANNUAL REPORT

1969



DISCOVERY MINES LIMITED

AS AT DECEMBER 31, 1969

OFFICERS	J. C. BYRNE - - - - - <i>President</i>
	J. K. B. BOOTH - - - - - <i>Vice-President</i>
	D. S. HAMILTON - - - - - <i>Secretary-Treasurer</i>
DIRECTORS	J. AUSTIN - - - - - Vancouver, B.C.
	G. H. BEESTON - - - - - Toronto, Ont.
	J. K. B. BOOTH - - - - - Toronto, Ont.
	J. C. BYRNE - - - - - Toronto, Ont.
	E. S. HOLMGREN - - - - - Detroit, Mich.
	D. O. MUNGOVAN, Q.C. - - - - - Toronto, Ont.
	G. T. SMITH - - - - - Toronto, Ont.
MANAGEMENT	J. C. BYRNE - - - - - Toronto, Ont. <i>Managing Director</i>
	R. J. KILGOUR, P.Eng. - - - Avoca Mines, Ireland <i>General Manager</i>
EXECUTIVE ENGINEER	L. A. BEDNARZ, P.Eng. - - - - - Toronto, Ont.
CONSULTANTS	NORMAN W. BYRNE, P.Eng. - - - Yellowknife, N.W.T.
	J. K. B. BOOTH, P.Eng. - - - - - Toronto, Ont.
SOLICITORS	MUNGOVAN & MUNGOVAN - - - - 80 King St. W. Toronto, Ont.
AUDITORS	COLLINS, LOVE, EDDIS, VALIQUETTE & BARROW - - - 110 Yonge St. Toronto, Ont.
TRANSFER AGENTS AND REGISTRARS	CROWN TRUST COMPANY - - - - 302 Bay St. Toronto, Ont.
	BANKERS TRUST COMPANY - - - New York, N.Y.
BANKERS	ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto, Ont.
	CANADIAN IMPERIAL BANK OF COMMERCE, Yellowknife, N.W.T. — Whitehorse, Y.T.
EXECUTIVE OFFICE	Suite 1011, 2200 Yonge St., Toronto 12, Ont.
ANNUAL MEETING	June 29, 1970, 10:30 a.m., Metropolitan Room, Main Floor, Royal York Hotel, Toronto.

DISCOVERY MINES LIMITED

Directors' Report

TO THE SHAREHOLDERS:

Your Directors are pleased to present the Twenty-Third Annual Report of the Company for the year ended December 31, 1969.

Since the Discovery gold mine ceased operations in April, 1969, your Company has acquired a major equity in an Irish copper property which is presently being prepared for production. Gold remains very much a part of Discovery's image as interests are held in several gold prospects that are potentially economic at significantly higher prices for the precious metal. A 23 per cent share investment in Rayrock Mines Limited gains importance in the light of that company's record 1969 earnings and a comparable performance anticipated for 1970.

AVOCA MINES CANADA LIMITED

Early in 1969, Discovery Mines expressed interest in operating a former producing copper property situated near Dublin, Ireland. During a two year period to March, 1969, approximately \$1,000,000 was expended on a program of underground exploration, metallurgical tests, and feasibility studies by a consortium of companies which had been granted a working option on the property from the Irish government. This program proved up sufficient ore to support a medium sized operation, and consequently agreements were entered into between the consortium and Discovery Mines which called for the latter to raise the necessary additional preproduction finances, and to manage the Irish venture in return for a major interest in the project. The consortium, consisting of the Superior Oil Group, the Patino Mining interests, and associated companies of Northgate Exploration, exercised the government option in March, 1969, thus paving the way for production planning. As a necessary step in this direction, Avoca Mines Canada Limited was incorporated immediately and purchased all of the outstanding shares of Avoca Ireland.

Financing arrangements were concluded during the year with an underwriting of Avoca Mines Canada shares and debentures, together with funds provided by Discovery. The investment firm of Cochran, Murray & Co. Limited underwrote \$1,000,000 8½ per cent Unsecured Income Debentures and 1,000,000 common shares in units of shares and debentures to net the Avoca treasury \$1,750,000. In addition, your Company provided \$1,500,000 in return for 2,249,942 shares of Avoca Mines Canada. A subsequent private sale of 50,000 shares reduced Discovery's holdings of Avoca to 2,199,942 shares, representing an approximate 46 per cent interest. Discovery has agreed to purchase for \$750,000 cash, 7 per cent Subordinated Unsecured Debentures in the principal amount of \$750,000 which carries a bonus of 250,050 shares of Avoca Mines Canada. The vendors of Avoca Ireland, who collectively exchanged their shares in Avoca Ireland for 1.5 million shares of the new Canadian company, had the right to participate to a limited extent in the purchase of the Unsecured Debentures. Balance of the required finances to attain production status will accrue from bank loans.

DISCOVERY MINES LIMITED

Capital costs for mine development and plant rehabilitation together with working capital requirements had originally been estimated at \$4.5 million. Provision has been made for bank borrowings of up to \$2 million for additional plant facilities not provided for in the original estimates, for additional working capital, and for an anticipated cost overrun due primarily to additional substantial mill modifications. Excluded from the projected capital expenditures is £675,000 (\$1,735,000 Canadian) being the cost to Avoca Ireland of the concentrator and ancillary plant facilities; repayment to the Irish Government will be at the rate of 15 per cent of annual net profits.

Full scale production is expected to be attained early in 1971. Although the original milling plant had been designed to process 4,000 tons daily, Avoca will initiate production at the rate of 2,000 tons per day, and this will increase to 3,000 tons daily within two years from startup.

Indicated ore reserves as defined by detailed underground diamond drilling are in the order of 7.0 million tons, averaging 1.0 per cent copper after allowance for dilution. This tonnage is in two orebodies referred to as the South Lode and the Pond Lode, and is entirely outside the area of the old workings. Potential for additional ore is excellent.

The Avoca mine was last in production from 1958 through 1962. Closure was prompted by excessive dilution from mining the old workings, and by depressed copper prices. The advent of financial difficulties saw the property placed in receivership by the Irish Government who placed the property on a care and maintenance basis and kept the main mine dewatered. A government sponsored economic study recommended that further exploration be undertaken, and, as a consequence, proposals to advance this work were invited from interested resource companies. In 1966, a proposal was accepted from the consortium described herein.

Both copper and pyrite concentrates will be produced by Avoca. The pyrite is to be sold under contract to a local fertilizer manufacturer, while the copper output will be shipped to European smelters.

The Avoca mine operation will be exempt from corporate income tax for a period of twenty years from commencement of production. All dividends received by Avoca Canada from its Irish subsidiary will also be tax exempt.

RAYROCK MINES LIMITED

Your Company owns as an investment 1,031,900 shares of Rayrock Mines, representing a 23 per cent equity interest.

For the fiscal year ended October 31, 1969, Rayrock reported a record net profit of \$996,896, equivalent to 22.4 cents per share; cash flow of \$1,168,745 was double that of the previous period. Earnings for 1970 are expected to be comparable to those of 1969, even though exploration expenditures will be higher.

DISCOVERY MINES LIMITED

Mine income is derived from a 21.4 per cent interest in the Icon Sullivan Joint Venture copper mine which is just completing its third full year of production. Operations have been most satisfactory from the outset. A preconcentrating plant just completed will permit the economic extraction of low grade copper that would otherwise be bypassed due to the cost of trucking ore a distance of 44 miles from the mine to the mill, and will significantly upgrade run-of-the-mine ore through an expected waste rejection of up to 50 per cent by weight.

A satisfactory performance was registered by the Petroleum Division whose income is derived essentially from two producing oil fields in southwestern Ontario. Additional proven reserves are being investigated for purchase.

Rayrock is a participant in a number of exploration syndicates of which one will be active in Australia. Regions being investigated in 1970 include northern Manitoba, northwestern Ontario, British Columbia, Quebec, and the Yukon Territory. The Company has the option to earn a 51 per cent interest in a porphyry copper prospect situated in the Kamloops area of British Columbia; exploration will commence in June.

CAMLAREN MINES LIMITED

Continued rising labour costs, and the absence of a higher gold price produced little incentive by which to advance an underground exploration and development program on the Gordon Lake gold property. In order to adequately assess the depth potential of the high grade Hump Vein, the existing shaft must be deepened by at least 500 feet. No work was conducted on the property in 1969.

Discovery holds a 70 per cent share interest in Camlaren.

NORITA QUEBEC MINES LIMITED

Discovery retains its 13.7 per cent equity interest in Norita Quebec Mines which has an undeveloped potential orebody on its Matagami area property. Diamond drilling some years ago indicated 800,000 tons averaging 0.64 per cent copper, 7.29 per cent zinc, and 0.70 ounces silver per ton with good chances for expansion at depth.

EXPLORATION

An intriguing copper prospect situated near Terrace, B.C., has been optioned by a consortium consisting of Discovery Mines, Tundra Gold Mines, Ashland Oil & Refining, and Canadian Industrial Gas & Oil. An initial program of mapping, geochemical prospecting, and trenching has just commenced.

During the past year an airborne geophysical survey was conducted on a group of 200 base metal claims situated in the Artillery Lake region of the Northwest Territories. Results were disappointing and the claims will be allowed to lapse.

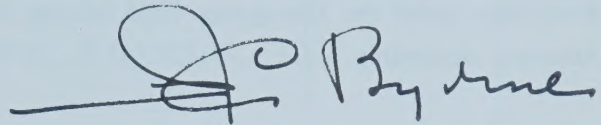
DISCOVERY MINES LIMITED

Discovery will participate in an exploration syndicate that will shortly commence field work in Australia.

ACKNOWLEDGEMENT

The Directors wish to express their appreciation to all employees of the Company for their loyal and conscientious efforts rendered to the Company during the year.

On behalf of the Board of Directors:

A handwritten signature in black ink, appearing to read "J. Byrne". The signature is fluid and cursive, with a large initial "J" and a long horizontal stroke extending to the left.

President and Managing Director.

Toronto, Canada,
May 11, 1970.

DISCOVERY MINES LIMITED

(Incorporated under the laws of Ontario)

Balance Sheet

ASSETS

Current Assets

	1969	1968
Cash	\$ 85,582	\$ 291,586
Short-term notes and certificates, at cost	900,000	2,000,000
Other short-term investments, at lower of cost or market	20,779	19,039
Bullion on hand and in transit		74,917
Receivable under the Emergency Gold Mining Assistance Act — estimated	44,618	86,734
Accounts receivable	94,471	89,856
	<u>1,145,450</u>	<u>2,562,132</u>
Investment in other companies (Note 2)	2,804,997	1,247,804

Investment in and Advances to Subsidiary Company

Camlaren Mines Limited (Note 1)		
Investment in shares, at cost	250,800	252,058
Advances	56,210	56,109
	<u>307,010</u>	<u>308,167</u>

Mining Properties

Mining claims and options — acquired for cash and shares of capital stock as valued by the directors of the company	141,364	291,432
Land, buildings, plant and equipment at cost, less realizations and accumulated depreciation to date (Note 3) (1968, at cost, less accumulated depreciation \$2,489,916)	108,815	263,913
Deferred exploration and development expenditures (Note 4)	451,364	451,364
	<u>701,543</u>	<u>1,006,709</u>

Other Assets

Mine stores, at cost	25,149	162,047
Prepaid expenses and sundry deposits	22,077	33,226
Incorporation expense	4,837	4,837
	<u>52,063</u>	<u>200,110</u>
	<u>\$5,011,063</u>	<u>\$5,324,922</u>

DISCOVERY MINES LIMITED

December 31, 1969

LIABILITIES

Current Liabilities

	1969	1968
Accounts payable and accrued expenses	\$ 55,061	\$ 138,462
Unclaimed dividends	5,990	5,990
	<u>61,051</u>	<u>144,452</u>

SHAREHOLDERS' EQUITY

Capital Stock

Authorized		
4,000,000 shares of \$1 par value each		
Issued (Note 7)		
2,748,773 shares (1968, 2,734,773 shares)	2,748,773	2,734,773
Contributed surplus (\$4,900 received upon issue of shares during 1969)	194,224	189,324
Retained earnings	<u>2,007,015</u>	<u>2,256,373</u>
	<u>4,950,012</u>	<u>5,180,470</u>

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board,

J. C. BYRNE, Director.

J. K. B. BOOTH, Director.

\$5,011,063

\$5,324,922

DISCOVERY MINES LIMITED

Notes to the Financial Statements

December 31, 1969

1. The accounts of the subsidiary company, Camlaren Mines Limited, are not consolidated in these financial statements. During 1969, the subsidiary company was inactive.

2. **Investment in other companies:**

	<u>1969</u>	<u>1968</u>
Rayrock Mines Limited — 1,031,900 shares, quoted market value \$2,003,000 (1968, 1,001,700 shares, quoted market value \$3,155,355)	\$1,056,788	\$1,000,589
Avoca Mines Canada Limited — 2,199,942 shares, quoted market value \$2,862,123	1,466,663	
Other listed shares — quoted market value \$40,300 (1968, \$21,345)	57,856	23,475
Other shares (unlisted or escrowed), debentures, etc., at cost less allowance for possible loss on realization \$1,225,000	223,690	223,740
	<u>\$2,804,997</u>	<u>\$1,247,804</u>

Because of the number of shares involved, the quoted market values of the investments in Rayrock Mines Limited and Avoca Mines Canada Limited are not necessarily indicative of the amounts which would be realized if they were to be sold.

3. **Fixed assets, at mine properties**

Fixed assets at the company's inactive mining properties at La Forma, Yukon Territory, and Discovery, Northwest Territories, are carried at cost less realizations and accumulated depreciation. Management anticipates final realizations will be in excess of the amount shown.

4. **Deferred exploration and development expenditures**

Deferred exploration and development expenditures of \$451,364 consist of expenditures by predecessor company upon mining claims in Matagami Lake Area of Quebec and other locations. It is the policy of the company to carry these expenditures forward until such time as they can be written off against revenue from these properties.

5. **Remuneration of directors and senior officers**

The aggregate direct remuneration paid to directors and senior officers (as defined by The Corporations Act, Ontario) for the year ended December 31, 1969 was as follows:

Directors and senior officers	\$ 28,600
Senior employees (not officers or directors)	20,900
	<u>\$ 49,500</u>

6. **Pension plan**

The company has a contributory pension plan covering four employees. The plan is financed by employee contributions of 5% of earnings and a company contribution of approximately \$3,200 annually to cover the balance of cost.

The plan is fully funded in accordance with actuarial calculations of the liability for accrued pension benefits.

7. **Employees' incentive stock purchase options**

Stock purchase options were granted on October 31, 1968 to key employees on a total of 120,000 shares of capital stock at a price of \$1.35 a share, exercisable as to 40% at the end of the first year, as to 30% at the end of the second year and as to 30% at the end of the third year. The said options are cumulative and exercisable at any time to the end of the fifth year. In 1969, options on 14,000 shares were exercised.

DISCOVERY MINES LIMITED

Statement of Retained Earnings

For the Year Ended December 31, 1969

	1969	1968
Balance, beginning of the year	\$2,256,373	\$1,261,315
Net income for the year		93,879
Profit on sale of investments		901,626
	<u>2,256,373</u>	<u>2,256,820</u>
Net loss for the year	71,587	
Write-down of mining claims at the company's inactive mine site to nominal value	131,568	
Write-down of mine stores to estimated realizable value	45,616	
Adjustment of Northwest Territories royalty tax of prior years	587	447
	<u>249,358</u>	<u>447</u>
Balance, end of the year	<u>\$2,007,015</u>	<u>\$2,256,373</u>

AUDITORS' REPORT

To the Shareholders,
Discovery Mines Limited.

We have examined the balance sheet of Discovery Mines Limited as at December 31, 1969 and the statements of retained earnings, operations and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COLLINS, LOVE, EDDIS, VALIQUETTE & BARROW,
Chartered Accountants.

Toronto, Canada,
March 6, 1970.

DISCOVERY MINES LIMITED

Statement of Operations

For the Year Ended December 31, 1969

Income

	1969	1968
Metal production	\$ 234,416	\$1,297,674
Investment income	115,681	38,061
Estimated amount recoverable under the Emergency Gold Mining Assistance Act	49,627	242,557
	<u>399,724</u>	<u>1,578,292</u>

Expenditure

Cost of metal production, including mining, milling, delivery and mint charges	265,047	1,148,500
Shut down expense	81,044	—
Exploration and development		74,484
Head office, administrative and general expenses	63,478	73,030
Bank interest	125	960
Directors' fees	6,300	4,500
	<u>415,994</u>	<u>1,301,474</u>
Profit (loss) before depreciation	(16,270)	276,818
Depreciation on buildings, plant and equipment	7,223	41,511
Operating profit (loss)	<u>(23,493)</u>	<u>235,307</u>
Maintenance expense at La Forma, Yukon Territory	1,938	5,204
Outside exploration	46,156	136,224
	<u>48,094</u>	<u>141,428</u>
Net income (loss) for the year	<u>\$ (71,587)</u>	<u>\$ 93,879</u>

DISCOVERY MINES LIMITED

Statement of Source and Application of Funds

For the Year Ended December 31, 1969

Source of Funds

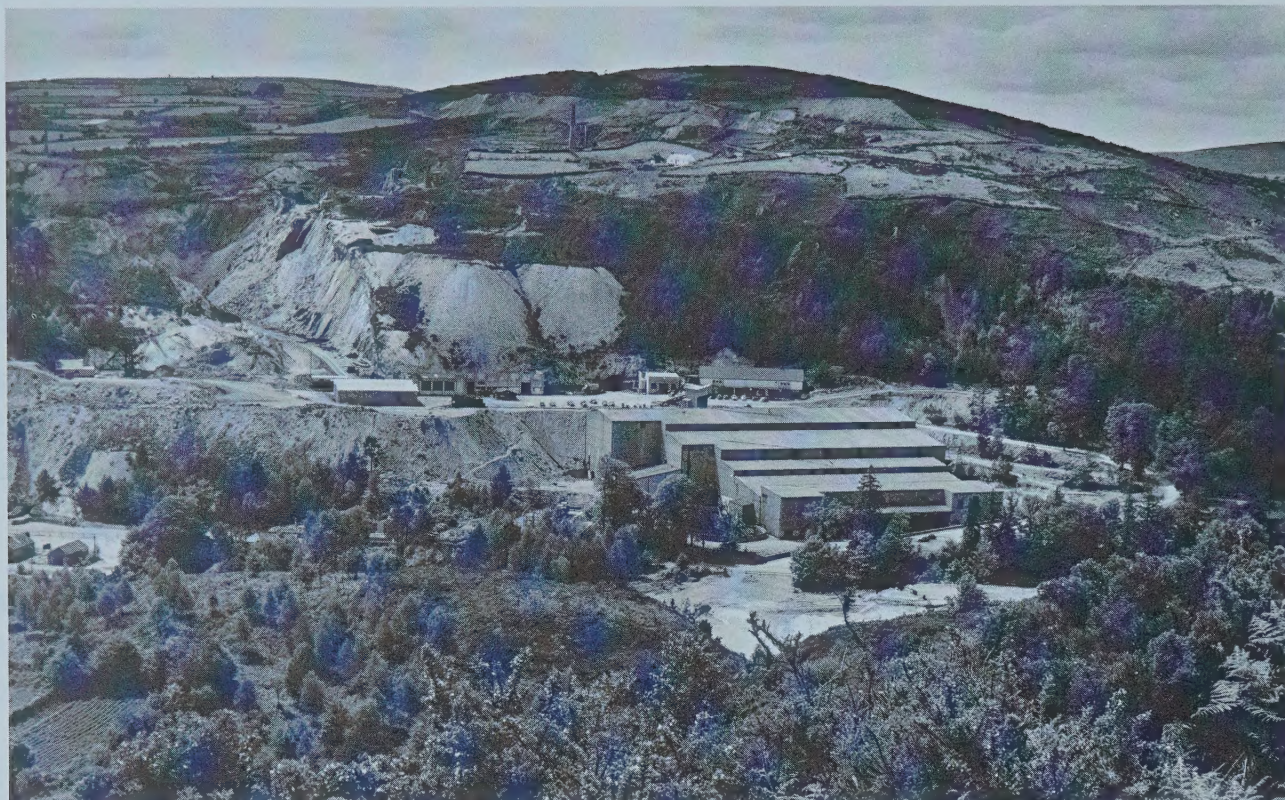
Current Operations

	1969	1968
Net income for the year	\$	\$ 93,879
Depreciation and other write-offs	25,723	41,511
	<u>25,723</u>	<u>135,390</u>
Sale of capital stock	18,900	
Sale of shares of subsidiary	1,258	
Sale of other investments	133,287	1,675,088
Sale of fixed assets	156,782	12,570
Sale of mine stores	91,282	48,665
Reduction in prepaid expenses and sundry deposits	11,149	
	<u>438,381</u>	<u>1,871,713</u>

Application of Funds

Net loss for the year	71,587	
Purchase of investments in other companies	1,690,480	2,569
Advances to subsidiary company	101	41,155
Additions to fixed assets	8,907	29,323
Adjustment of Northwest Territories royalty tax of prior years	587	447
Payments on mining claims held under option		5,000
Cost of staking mining claims		8,500
Increase in prepaid expenses and sundry deposits		9,228
	<u>1,771,662</u>	<u>96,222</u>

Working capital increase (decrease)	(1,333,281)	1,775,491
Working capital, beginning of the year	2,417,680	642,189
Working capital, end of the year	<u>\$1,084,399</u>	<u>\$2,417,680</u>



View of Avoca Mines Plant Site.



Avoca River — Avoca, County Wicklow, Ireland.

